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SUBJECT: Mexico Economic Weekly - June 12

11. (U) The Mexico Economic Weekly supplements reporting from Mission Mexico Consulates and the Embassy Mexico Economic Section to provide a sense of ongoing trends. Please contact Adam Shub (shubam@state.gov) or Sigrid Emrich (emrichs@state.gov) for questions or comments about this report.

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MACROECONOMY:

¶3. (U) MEXICAN ECONOMY IN THE MOST SEVERE STAGE: On June 9, President Calderon acknowledged publicly that the economy is presently at its most severe stage. Responding to this statement, lawmakers from all political parties insisted on adjusting the Federal Budget and Fiscal Accountability Law in order to give the government leeway to increase the fiscal deficit and stimulate the economy, particularly in such an economic recession as this. However, PRI legislator Antonio Soto, member of the Finance Committee of the Chamber of Deputies, explained that his party has learned the lessons of how not to raise the country's debt irresponsibly. PAN Senator Jose Isabel Trejo said his party would only expand the fiscal deficit if the oil hedging, the oil stabilization funds, and the Bank of Mexico's reserves were insufficient to offset the decline of fiscal revenues. Finance Secretary Agustin Carstens noted that the government would take actions to stimulate the economy, but without weakening public finances, which so far have been steadily solid. Meanwhile, in New York, the rating company Fitch said that Mexico would need a Plan B to prevent its sovereign debt from being downgraded if it does not achieve a fiscal reform after the lower house elections in July. (Mexico City)

¶4. (U) ANNUAL INFLATION BELOW 6%: The consumer price index dropped 0.29% in May. Annual inflation totaled 5.98%, the lowest since November 2008. Annual core inflation dropped from 5.81% in April to 5.56% in May on lower tourist services, telephone rates, food and transportation prices, while non-core inflation rose 0.26% on higher government administered prices as well as merchandise prices. Given the downward trend, it is very likely that the Bank of Mexico will cut its overnight lending rate on June 19 to continue invigorating the economy. Bank of Mexico Governor Guillermo Ortiz warned of a risk of higher inflation rates in emerging countries due to the depreciation of most of their currencies. The central bank maintains its year-end inflation forecast between 4.00% and 4.50%. (Mexico City)

COMPETITIVENESS:

¶5. (U) CHIHUAHUA CITY RANKS AS EASIEST PLACE IN LATIN AMERICA TO START A BUSINESS: Chihuahua City is the easiest municipality in Latin America to start a business, according to the recently released '2008 Municipal Scorecard Report' prepared by the International Finance Corporation (IFC). According to the study, it takes 8 days to register a business in Chihuahua City, compared to the regional average of 38 days. Moreover, only 3.4 percent of total permit requests are denied by city authorities. The study, which surveyed 143 municipalities in 10 countries throughout Latin America, also ranked Chihuahua City as the third easiest place in the region to receive a building permit.

These sub-national results counter similar reports, which show Mexico's competitive position in these categories declining. For instance, the World Bank's 2009 Doing Business Report, ranked Mexico 115th (79th in 2008) in starting a business and 33th (29th in 2008) globally in issuing building permits. World Bank economists argue that there is a positive correlation between the time it takes to start a business and levels of informality. High levels of informality impede businesses from accessing international markets, credit and government benefits. (Ciudad Juarez)

MANUFACTURING:

¶16. (U) 13 NEW MAQUILADORA PLANTS ARRIVE TO JUAREZ: From January to May 2009, the Secretary of Economy issued 13 permits to open new maquiladora plants in Ciudad Juarez, which will reportedly create 3,500 direct jobs in 2009. The 13 new plants will operate in a variety of sectors, including electronic manufacturing, logistics programs and clothing packaging. In comparison to manufacturing plants in the auto sector, which have cut thousands of jobs in the city during the past year, the new plants are smaller and will create fewer direct jobs per plant, says Martha Messina, the Juarez Delegate for the Secretary of Economy. Nonetheless, the new jobs tend to offer higher salaries than the industry average. The number of maquiladora plants that have opened in Ciudad Juarez during the last five years are as follows: in 2003 (9), 2004 (33), 2005 (26), 2006 (28), 2007 (31), 2008 (51). (Ciudad Juarez)

TOURISM:

¶17. (U) CRUISE SHIPS RESUME DOCKING IN ENSENADA: After 43-day stoppage due to the swine flu scare, cruise ships once again are docking in Ensenada, Baja California. The first to return, a Carnival Cruise ship bringing visitors from Catalina Island, CA, arrived on June 10. (Tijuana)

TRANSPORTATION:

¶18. (U) NEW WOMEN-ONLY TAXI SERVICE IN MONTERREY: In a nod to growing insecurity issues and the strength of the women's market, a new taxi service named 'Taxi Rosa' announced the launch of their business on June 7 in Monterrey. The business will lease 130 taxis marked with pink signage and equipped with GPS tracking, panic buttons, and other security features to female taxi drivers for use exclusively by female customers. The company claims that the business is the first of its kind in Mexico and plans to expand into other cities throughout the country if successful. (Monterrey)

AVIATION:

¶19. (U) TO GROUND AND UNGROUND IN MEXICO: AVIACSA FLYING HIGH AND LOW: Mexico's Directorate-General for Civil Aviation (DGAC, a component of the Secretariat of Communications and Transportation (SCT)) and airline Aviacsa on 12 June entered day 11 of their duel, with the airline banned from flying in the morning but back in the air by lunchtime. Since 2 June the DGAC has twice grounded Aviacsa's 25-aircraft fleet for safety breeches and Aviacsa has twice secured rulings from judges in San Luis Potosi to overcome the grounding order. SCT's chief counsel, Gerardo Sanchez Henkel, has singled out the judge responsible for overturning the order as bearing responsibility for any accidents that result from Aviacsa's resumed operations and advises the public against flying with the airline. A senior DGAC official told the Embassy Aviacsa must devise and apply an effective maintenance plan and restore the fleet's airworthiness before SCT will allow the airline back into the skies. Descriptions of the grounds for grounding offered by DGAC and SCT on one side and Aviacsa on the other vary substantially. Aviacsa maintains augmenting its corps of inspectors will put it in compliance, while

the DGAC reports irregularities in the aircraft themselves. Aviacsa CEO Eduardo Morales Mega calls the whole thing variously a ploy to turn over its landing slots at Mexico City International Airport to rival budget carrier Volaris (currently based in Toluca) and a scheme to recover 534 million pesos (USD 39.6 million) in fuel, navigation, and airport user fees that Morales does not admit Aviacsa owes. Aviacsa has been fighting payment in the courts since summer 2008, and has won key stays in, of all places, a San Luis Potosi court. The airline says it will seek recompense from SCT for lost revenue, estimated at 5 million pesos (USD 373,000) per day of suspension. Commentators compare the situation with the demise of Baja-based Aero California, initially suspended for safety deficiencies in 2006 and then suspended anew for unpaid air traffic control fees. (Mexico City)

BASSETT